

**CITY OF LAKELAND, TENNESSEE**

**FINANCIAL STATEMENTS**

June 30, 2011



Watkins Uiberall, PLLC  
Certified Public Accountants & Financial Advisors  
Independent Member of BKR International

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## *City of Lakeland*

January 24, 2012

To the Mayor, Board of Commissioners and Citizens of Lakeland:

The Comprehensive Annual Financial Report (CAFR) of the City of Lakeland, Tennessee for the fiscal year ended June 30, 2011, is hereby submitted in accordance with the City of Lakeland Charter requirement for an independent audit by a certified public accounting firm. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB) and have been audited in accordance with generally accepted auditing standards.

This report consists of management's representations concerning the finances of the City of Lakeland. Management assumes full responsibility for the completeness and reliability of all of the information presented in this report. Management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Watkins Uiberall, PLLC has audited the City of Lakeland financial statements, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2010, are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable (clean) basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2010, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the report.

### ***Profile of the Government***

The City of Lakeland, incorporated in 1977, is located in northeast Shelby County in the Southwestern part of the State. Lakeland occupies 24 square miles and serves a population of over 12,430. The City is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Board of Mayor and Commissioners.

The City of Lakeland's charter provides for a Manager-Commission form of Government. This is a Statutory Charter established by the State of Tennessee.

Lakeland's daily operational activities are handled by a City Manager, who is appointed by the Board of Commissioners. Under Lakeland's form of government, the five-member Board of Commissioners, one of whom is elected as Mayor, are elected at large. The Commissioners' duties are to set City policy through legislation and to supervise and evaluate the management of the City by the City Manager. The Board of Commissioners, among other things, is responsible for passing ordinances, adopting the budget and appointing members of Advisory Boards and Commissions. The Board of four Commissioners and the Mayor are elected to four-year terms by popular vote. One-half of the Board is elected every two years.

The City of Lakeland provides a range of municipal services including street and drainage construction and maintenance, solid waste collection, recreational programs, planning and zoning and administrative services. In addition, the City operates a sewer utility system as an Enterprise Fund.

The Shelby County Schools Board of Education provides educational services to students within the jurisdiction of the City of Lakeland. The County school system is part of the Shelby County Government of Shelby County. The Memphis Light, Gas, and Water Division of the City of Memphis provide electrical, water, and natural gas distribution to the Lakeland service area. The City of Memphis also provides sewer service to residents located in a portion of Lakeland that is located north of Highway 64, south of Interstate 40, and west of Canada Road. Approximately 1000 households reside in this area. These entities do not meet the established criteria for inclusion in the reporting entity and are not included in this report.

The City of Lakeland annually prepares a plan of services for the upcoming fiscal year and the estimated cost of providing those services. This plan is reviewed by the Board of Mayor and Commissioner and is formally adopted by the passage of a budget ordinance. Strict budgetary compliance is maintained by the automated accounting system to assure effective fiscal management and accountability. All requests for purchases are checked by the City Manager to assure that funds are available. Purchase Orders and contracts are encumbered prior to release to vendors. The City Manager may transfer resources within a department as required.

### ***Local Economy***

The City of Lakeland currently has a moderate economic growth and is continuing to grow, although this growth has slowed significantly from at least 2008 to date. The City population at the last Federal Census in 2010 was 12,430.

The City of Lakeland purchased several tracts of land adjacent to the existing City Hall complex in preparation for construction of Fire Station # 2. This fire station is proposed to be built and owned by the City and staffed and equipped by the Shelby County Fire Department.



The Board of Commissioners has approved a local match of \$3,000,000 for the interchange at I-40 and Canada Road for a joint project with the Tennessee Department of Transportation for the construction of a single-point interchange. Construction of the interchange is anticipated to start in 2013. As part of that project, Bevele Rivera Drive will be extended to improve the traffic circulation in this area.

The City is in the process of the development of new Land Development Regulations. Once approved, the regulations will affect all new development.

Several Planned Developments and other subdivisions remain unconstructed, or are so early in the construction stages that no permits have been sought. These developments comprise over 1,500 single-family lots and some commercial development. They appear to have languished due to the economic downturn.

Among the larger commercial site plans approved by the City, Lakeland Station (the former outlet Mall) remains in a pending status, due to developer's changing timelines. Corner Shops (at Canada Road & Hwy 64) is built on its southern end, and is almost fully leased.

The City continues to develop Canada Road from I-40 to Highway 64 with landscaping of the median and construction of a bike and pedestrian pathway. The bike and pedestrian path is funded by a 100% "stimulus" grant and will be completed in the fiscal year beginning July 1, 2011.

Street and storm sewer improvements are in progress throughout the City. Traffic signals at I-40 and Canada Road (funded by a congestion grant) and Highway 70 and Canada Road (funded by a safety grant) were completed in this fiscal year.

### ***Long-term financial planning***

- Design and Construction of a new Fire Station #2
- Acquisition of property for a major sports park
- Several streets improvement projects, including the extension of Beverle Rivera Road.
- Planning and construction of New Canada Road

### ***Major initiatives***

- Preliminary construction plans are right of way are being developed for New Canada Road. This is funded 80% by a grant and 20% by the City.
- Acquisition of Right of Way for construction of Beverle Rivera Road was concluded during the year with the completion of the Water's Edge plat designating right of way.
- Resurfacing and reconstruction of Huff 'n Puff Road using Federal Surface Transportation Funds with a local match will be delayed until 2013 in conjunction with the interchange.
- Ongoing analysis of the Sewer Fund in order to balance revenues with expenditures.
- 2011 Planning Department Work Plan

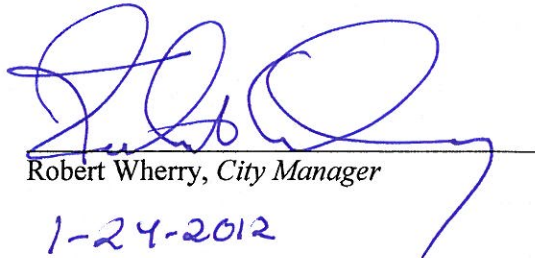
January 24, 2012

- A Strategic Plan for Economic Development is recently continues with the Economic Development Commission, expected in 2012.
- A grant was obtained for IH Club House Renovations, expected to be completed in 2012.
- IH Parking Lot Improvements are being constructed and funded by a loan.
- The Lakeland Senior Center is being constructed through a Community Development Block Grant and a funds provided by the City of Lakeland.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and administration department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report.

Credit also must be given to the Mayor and the Commissioners for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Lakeland's finances.

Respectfully submitted,



Robert Wherry, *City Manager*

1-24-2012

**City of Lakeland, Tennessee**  
**City Officials**  
**June 30, 2011**

**Mayor**  
Scott Carmichael

**Commissioners**

Randy Nicholson, Vice Mayor  
Don Barber, Commissioner  
Cecil Tompkins, Commissioner  
Mark Hartz, Commissioner

**Appointed Officials**

City Manager	Robert Wherry
Growth Management Director	J. Higbee
Office Coordinator	Theresa Meyer
City Attorney	David Lakin
Director of Finance	Robert Wherry
City Recorder	Sontidra Thomas
City Engineer	Philip Stuckert
Public Works Supervisor	Bristol Roberts
Chief Construction Inspector	Michael Morrisett
Natural Resource Director	Eric Bridges





Watkins Uiberall, PLLC  
Certified Public Accountants & Financial Advisors  
Independent Member of BKR International

1661 Aaron Brenner Drive • Suite 300  
Memphis, Tennessee 38120  
901.761.2720 • Fax: 901.683.1120

210 East Main Street • Suite 2C  
Tupelo, Mississippi 38804  
662.269.4014 • Fax: 662.269.4016

[www.wucpas.com](http://www.wucpas.com)

## INDEPENDENT AUDITOR'S REPORT

To the Mayor and Board of Commissioners of the  
City of Lakeland, Tennessee:

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, the statements of budgetary comparison for the general fund and solid waste fund, and the aggregate remaining fund information of the City of Lakeland, Tennessee, (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparisons for the general fund and solid waste fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit

performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section and supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The supplementary information on pages 40 to 44 and the schedule of expenditures of federal awards and state financial assistance on page 45 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and supplementary information on pages 46 and 47 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Watkins Wilmall, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee  
January 24, 2012

## **Management's Discussion and Analysis**

This is a narrative overview and analysis of the financial activities of the City of Lakeland for the fiscal year ended June 30, 2011. Please consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and notes to the financial statements.

### **Financial Highlights**

- The assets of the City of Lakeland exceeded its liabilities at the close of the most recent fiscal year by \$52,567,215 (net assets). \$5,602,196 of net assets of the City of Lakeland are unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Lakeland's total net assets decreased by \$1,743,959 in fiscal year 2011.
- As of June 30, 2011, the City of Lakeland's governmental funds reported combined ending fund balances of \$3,444,586, a decrease of \$324,693 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,115,346 or 82 percent of total general fund expenditures. The fund balance was impacted due to reimbursement for current year expenses (fiscal year ending June 30, 2011) not being received in time to be credited as revenue in this budget year. The revenue will be reflected in the next budget year.
- The City of Lakeland's total debt decreased \$198,225 during the current fiscal year.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the City of Lakeland's basic financial statements. The City of Lakeland's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements:** The government-wide financial statements are designed to provide readers with a broad overview of the City of Lakeland's finances, in a manner similar to a private-sector business.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lakeland that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Lakeland include general government, capital projects, public safety, public works, parks and recreation, and natural resources. The business-type activities of the City of Lakeland include the operation of the sewer facilities.

The government-wide financial statements include only the City of Lakeland itself. The City of Lakeland operates a sewer system, which is reported as a proprietary fund in the City's financial statements.

**Fund financial statements:** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lakeland, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Lakeland can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Lakeland maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and solid waste fund. Data from the other governmental fund is in a single, aggregated presentation. The City of Lakeland adopts an annual appropriated budget for its general fund and solid waste fund. Budgetary comparison statements have been provided to demonstrate compliance with these budgets.



**Proprietary funds:** The City of Lakeland maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Lakeland uses an enterprise fund to account for its Sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the sewer activities of the City of Lakeland, which is considered to be a major fund.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

### **Government-wide Financial Analysis:**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lakeland, assets exceeded liabilities by \$52,567,215 at the close of June 30, 2011.

By far the largest portion of the City of Lakeland's net assets (89.1 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The City of Lakeland uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lakeland's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City has \$11,925,853 of outstanding debt as of June 30, 2011.

The following provides a summary of the City's net assets at June 30, 2011.

### Summary of Net Assets

	<b><u>Governmental Activities</u></b>		<b><u>Business Type Activities</u></b>		<b><u>Totals</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Current and other assets	\$ 4,394,710	\$ 4,074,004	\$ 1,917,841	\$ 2,148,295	\$ 6,312,551	\$ 6,222,299
Capital Assets	<u>43,686,536</u>	<u>45,452,628</u>	<u>15,130,254</u>	<u>15,448,565</u>	<u>58,816,790</u>	<u>60,901,193</u>
<b>Total Assets</b>	<b><u>48,081,246</u></b>	<b><u>49,526,632</u></b>	<b><u>17,048,095</u></b>	<b><u>17,596,860</u></b>	<b><u>65,129,341</u></b>	<b><u>67,123,492</u></b>
Current Liabilities	955,060	602,871	426,544	407,284	1,381,604	1,010,155
Long-term debt	<u>3,377,272</u>	<u>3,589,763</u>	<u>7,803,250</u>	<u>8,212,400</u>	<u>11,180,522</u>	<u>11,802,163</u>
<b>Total Liabilities</b>	<b><u>4,332,332</u></b>	<b><u>4,192,634</u></b>	<b><u>8,229,794</u></b>	<b><u>8,619,684</u></b>	<b><u>12,562,126</u></b>	<b><u>12,812,318</u></b>
Net assets:						
Invested Capital Assets	39,976,933	41,554,800	6,856,254	6,777,565	46,833,187	48,322,365
Restricted	131,832	-	-	-	131,832	-
Unrestricted	<u>3,640,149</u>	<u>3,789,198</u>	<u>1,962,047</u>	<u>2,199,611</u>	<u>5,602,196</u>	<u>5,988,809</u>
<b>Total Net Asset</b>	<b><u>\$43,748,914</u></b>	<b><u>\$45,333,998</u></b>	<b><u>\$ 8,818,301</u></b>	<b><u>\$ 8,977,176</u></b>	<b><u>\$52,567,215</u></b>	<b><u>\$54,311,174</u></b>

At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets.

The City's net assets decreased by \$1,743,959 during the current fiscal year. Of this amount, \$1,585,084 represented a decrease in the net assets from governmental activities and \$158,875 represented an increase in the net assets from business-type activities.

The following provides a summary of activities for the City during the fiscal year ended June 30, 2011.

### Summary of Changes in Net Assets

	<b><u>Governmental Activities</u></b>		<b><u>Business-Type Activities</u></b>		<b><u>Totals</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Program Revenues						
Charges for services	\$ 1,373,540	\$ 1,288,401	\$ 919,637	\$ 850,159	\$ 2,293,177	\$ 2,138,560
Operating grants & Capital contributions	1,625,957	600,191	-	-	1,625,957	600,191
General Revenues						
Local Taxes	1,090,075	1,079,330	-	-	1,090,075	1,079,330
Intergovernmental	949,264	909,177	-	-	949,264	909,177
Interest on investments	42,246	47,660	22,911	35,909	65,157	83,569
Other	<u>73,408</u>	<u>28,799</u>	<u>-</u>	<u>-</u>	<u>73,408</u>	<u>28,799</u>
<b>Total Revenues</b>	<b><u>5,154,490</u></b>	<b><u>3,953,558</u></b>	<b><u>942,548</u></b>	<b><u>886,068</u></b>	<b><u>6,097,038</u></b>	<b><u>4,839,626</u></b>
Expenses						
General Government	1,952,655	2,280,616	-	-	1,952,655	2,280,616
Public Safety	3,958	24,103	-	-	3,958	24,103
Public Works	4,528,436	4,278,198	-	-	4,528,436	4,278,198
Parks & Recreation	239,838	225,094	-	-	239,838	225,094
Natural Resources	14,687	15,068	-	-	14,687	15,068
Business Type Sewer	<u>-</u>	<u>-</u>	<u>1,101,423</u>	<u>1,066,306</u>	<u>1,101,423</u>	<u>1,066,306</u>
<b>Total Expenses</b>	<b><u>6,739,574</u></b>	<b><u>6,823,079</u></b>	<b><u>1,101,423</u></b>	<b><u>1,066,306</u></b>	<b><u>7,840,997</u></b>	<b><u>7,889,385</u></b>
Change in Net Asset	(1,585,084)	(2,869,521)	(158,875)	(180,238)	(1,743,959)	(3,049,759)
Net Assets Beginning, as previously reported	45,333,998	48,203,519	8,977,176	7,619,392	54,311,174	55,822,911
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,538,022</u>	<u>-</u>	<u>1,538,022</u>
Net assets beginning, as restated	<u>45,333,998</u>	<u>48,203,519</u>	<u>8,977,176</u>	<u>9,157,414</u>	<u>54,311,174</u>	<u>57,360,933</u>
Net Assets End of Year	<b><u>\$ 43,748,914</u></b>	<b><u>\$ 45,333,998</u></b>	<b><u>\$ 8,818,301</u></b>	<b><u>\$ 8,977,176</u></b>	<b><u>\$ 52,567,215</u></b>	<b><u>\$ 54,311,174</u></b>

### **Governmental Activities**

Governmental activities decreased the City's net assets by \$1,585,084.

### **Business-Type Activities**

Business-type activities decreased the City's net assets by \$158,875. The key elements of this decrease are as follows:

Depreciation expense for sewer accounted for \$437,463 of total decrease.

### **Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements.

### **Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City of Lakeland's governmental funds reported combined ending fund balances of \$3,444,586, which was a decrease of \$324,693 in comparison with the prior year. Approximately 90% of this amount, \$3,115,346, constitutes unassigned fund balance, which is available for spending at the City's discretion. Included in fund balance is \$329,340 which has been restricted, committed, or assigned.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$3,169,459, including \$54,113 restricted for the Senior Citizen Building. The General Fund balance represents approximately 82% of the total General Fund expenditures and transfers out. The fund balance of the City's General Fund decreased by \$356,009 as a result of the current year operations.

Special revenue funds have a fund balance of \$275,127. This amount is restricted, committed, or assigned for special revenue fund expenditures. The combined fund balance for all special revenue funds increased by \$31,316 due mainly to increases in operating fees due to increase in operating expenses for the Solid Waste Fund and Storm Water Fund.

### **Proprietary Funds**

The City's proprietary funds provide the same type information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the sewer fund at the end of the year amounted to \$1,962,047. Other factors concerning the financial position of this fund have already been addressed in the discussion of the City's business-type activities.



## **Capital Assets and Debt Administration**

### **Capital Assets**

The City's investment in capital assets for its governmental and business type activities as of June 30, 2011, amounts to \$58,816,790 (net of accumulated depreciation) a decrease of \$2,084,403 from prior year. This investment in capital assets includes land, buildings and improvements, furnishing and equipment, infrastructure, and construction in process.

Major capital asset events during the fiscal year included the following:

- Various street and road improvements
- Contributions of infrastructure & sewer collection from completed development

## Summary of Capital Assets

	<b><u>Governmental Activities</u></b>		<b><u>Business-Type Activities</u></b>		<b><u>Total</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Land	\$7,140,990	\$7,140,990	\$75,360	\$75,360	\$7,216,350	\$7,216,350
Building & Improvement	2,668,199	2,668,199	17,937,465	17,828,248	20,605,664	\$20,496,447
Machinery & equipment	1,288,460	1,258,372	-	-	1,288,460	\$1,258,372
Improvements other	4,355,166	4,280,648	-	-	4,355,166	\$4,280,648
Vehicles	-	-	188,859	182,729	188,859	\$182,729
Construction in Progress	1,840,861	431,330	-	-	1,840,861	\$431,330
Infrastructure	61,012,146	61,012,146	-	-	61,012,146	\$61,012,146
Less accumulated depreciation	<u>(34,619,286)</u>	<u>(31,339,057)</u>	<u>(3,071,430)</u>	<u>(2,637,772)</u>	<u>(37,690,716)</u>	<u>\$(33,976,829)</u>
<b>Total Capital Assets</b>	<b><u>\$43,686,536</u></b>	<b><u>\$45,452,628</u></b>	<b><u>\$15,130,254</u></b>	<b><u>\$15,448,565</u></b>	<b><u>\$58,816,790</u></b>	<b><u>\$60,901,193</u></b>

Additional information on the City's capital assets can be found in Note 4 to the financial statements on pages 33 – 34.

## Summary of Outstanding Debt

	<b><u>Governmental Activities</u></b>		<b><u>Business-Type Activities</u></b>		<b><u>Totals</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
General obligation loans	<u>\$3,709,603</u>	<u>\$3,907,828</u>	<u>\$8,216,250</u>	<u>\$8,609,400</u>	<u>\$11,925,853</u>	<u>\$12,517,228</u>
<b>Total Long-Term Debt</b>	<b><u>\$3,709,603</u></b>	<b><u>\$3,907,828</u></b>	<b><u>\$8,216,250</u></b>	<b><u>\$8,609,400</u></b>	<b><u>\$11,925,853</u></b>	<b><u>\$12,517,228</u></b>

Information related to the City's long-term debt can be found in Note 4 to the financial statements on pages 35 - 36 of this report.

## **Budget Discussion**

In preparing the City of Lakeland's budget for the 2011-2012 fiscal year, the major sources of revenue for the City are local and state shared taxes, development / building fees, and user fees.

The estimated State Shared Taxes revenues are projected to slightly decrease from the last year's budget. Reasons for this include construction at the Lakeland Mall and the general slowdown of the economy. Several new businesses are expected to substantially contribute an increase to sales taxes, but we remain conservative and assume no increase.

The City tries to ensure that development etc. pays for itself (so existing residents and businesses do not subsidize new development) without overcharging for development by charging development and building fees. The City budgets relatively conservatively, and even one medium size development would have a major effect on revenues.

The City of Lakeland has approved an operating budget of \$4,203,665 and capital improvements of \$3,560,000, \$2,226,800 from grants, and TML loan of \$2,014,000. The total budget for the 2011-2012 is \$7,763,665.

## **Requests for Information**

This financial report is designed to provide a general overview of the City of Lakeland's finances for all those with an interest in the government's finances. Question concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Lakeland, Office of Finance, 10001 U.S. Highway 70 Lakeland, Tennessee 38002.

**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF NET ASSETS**

June 30, 2011

	Primary Government		
	Governmental	Business-type	
	Activities	Activity	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,452,063	\$ 1,821,123	\$ 5,273,186
Receivables			
Accounts	42,061	87,323	129,384
Interest	25,026	9,395	34,421
Internal balances	-	-	-
Due from other governments	875,560	-	875,560
Capital assets, not being depreciated	8,981,851	75,360	9,057,211
Capital assets, being depreciated, net	34,704,685	15,054,894	49,759,579
Total assets	<u>48,081,246</u>	<u>17,048,095</u>	<u>65,129,341</u>
<b>LIABILITIES</b>			
Accounts payable	353,976	13,544	367,520
Accrued expenses	81,433	-	81,433
Deferred revenue	-	-	-
Customer deposits	187,320	-	187,320
Noncurrent liabilities:			
Due within one year	332,331	413,000	745,331
Due in more than one year	3,377,272	7,803,250	11,180,522
Total liabilities	<u>4,332,332</u>	<u>8,229,794</u>	<u>12,562,126</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	39,976,933	6,856,254	46,833,187
Restricted for:			
Senior center building activities	54,113	-	54,113
Street activities	77,719	-	77,719
Unrestricted	3,640,149	1,962,047	5,602,196
Total net assets	<u>\$ 43,748,914</u>	<u>\$ 8,818,301</u>	<u>\$ 52,567,215</u>

The accompanying notes are an integral part of the financial statements.



# CITY OF LAKELAND, TENNESSEE

## STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary government:</b>				
Governmental Activities:				
General government	\$ 1,952,655	\$ 62,041	\$ -	\$ -
Public safety	3,958	-	-	-
Public works	4,528,436	1,215,974	328,703	1,297,254
Parks and recreation	239,838	95,525	-	-
Natural resources	14,687	-	-	-
Total governmental activities	6,739,574	1,373,540	328,703	1,297,254
Business-type activity:				
Sewer	1,101,423	919,637	-	-
Total primary government	\$ 7,840,997	\$ 2,293,177	\$ 328,703	\$ 1,297,254
General revenues:				
Local taxes				
Local sales tax				
Wholesale beer tax				
Business tax				
CATV franchise tax				
Hotel/Motel tax				
Intergovernmental				
State of Tennessee shared taxes				
Sales tax				
Beer tax				
Income tax				
Receipts in lieu of tax - TVA				
Interest on investments				
Other				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activity	Total
\$ (1,890,614)	\$ -	\$ (1,890,614)
(3,958)	-	(3,958)
(1,686,505)	-	(1,686,505)
(144,313)	-	(144,313)
(14,687)	-	(14,687)
(3,740,077)	-	(3,740,077)
-	(181,786)	(181,786)
(3,740,077)	(181,786)	(3,921,863)
737,457	-	737,457
137,356	-	137,356
64,307	-	64,307
106,978	-	106,978
43,977	-	43,977
728,190	-	728,190
7,748	-	7,748
91,244	-	91,244
122,082	-	122,082
42,246	22,911	65,157
73,408	-	73,408
2,154,993	22,911	2,177,904
(1,585,084)	(158,875)	(1,743,959)
45,333,998	8,977,176	54,311,174
\$ 43,748,914	\$ 8,818,301	\$ 52,567,215

**CITY OF LAKELAND, TENNESSEE**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

June 30, 2011

	<u>General Fund</u>	<u>Solid Waste</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,332,757	\$ 52,192	\$ 67,114	\$ 3,452,063
Receivables				
Accounts	42,061	-	-	42,061
Interest	25,026	-	-	25,026
Due from other governments	719,739	86,711	69,110	875,560
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 4,119,583</u>	<u>\$ 138,903</u>	<u>\$ 136,224</u>	<u>\$ 4,394,710</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 353,976	\$ -	\$ -	\$ 353,976
Accrued liabilities	81,433	-	-	81,433
Deferred revenue	327,395	-	-	327,395
Refundable deposits	187,320	-	-	187,320
Total liabilities	<u>950,124</u>	<u>-</u>	<u>-</u>	<u>950,124</u>
Fund balances:				
Restricted for:				
Senior center building activities	54,113	-	-	54,113
Street activities	-	-	77,719	77,719
Committed to:				
Stormwater activities	-	-	58,505	58,505
Assigned to:				
Solid waste activities	-	138,903	-	138,903
Unassigned	3,115,346	-	-	3,115,346
Total fund balances	<u>3,169,459</u>	<u>138,903</u>	<u>136,224</u>	<u>3,444,586</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund balances	<u>\$ 4,119,583</u>	<u>\$ 138,903</u>	<u>\$ 136,224</u>	<u>\$ 4,394,710</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF LAKELAND, TENNESSEE**

**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS**

June 30, 2011

---

Amounts reported for governmental activities in the statement of net assets are different because:

Total governmental fund balances	\$ 3,444,586
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	43,686,536
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	327,395
Long-term liabilities, including notes payable and capital leases, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,709,603)</u>
Net assets of governmental activities	<u>\$ 43,748,914</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2011

	<u>General Fund</u>	<u>Solid Waste Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 1,090,075	\$ -	\$ -	\$ 1,090,075
Licenses and permits	62,041	-	-	62,041
Intergovernmental	972,734	-	298,186	1,270,920
Charges for services	95,525	1,042,195	173,779	1,311,499
Federal, state, and local grants	996,825	-	-	996,825
Interest income	42,246	-	-	42,246
Other	73,408	-	-	73,408
Total revenues	<u>3,332,854</u>	<u>1,042,195</u>	<u>471,965</u>	<u>4,847,014</u>
<b>EXPENDITURES</b>				
Current				
General government	1,760,021	-	-	1,760,021
Capital projects	1,519,911	-	-	1,519,911
Public safety	3,958	-	-	3,958
Public works	-	1,035,794	447,050	1,482,844
Parks and recreation	143,913	-	-	143,913
Natural resources	14,687	-	-	14,687
Debt Service				
Principal	318,065	-	-	318,065
Interest and fiscal charges	45,773	-	-	45,773
Total expenditures	<u>3,806,328</u>	<u>1,035,794</u>	<u>447,050</u>	<u>5,289,172</u>
Excess (deficiency) of revenues over (under) expenditures	(473,474)	6,401	24,915	(442,158)
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of debt	<u>117,465</u>	<u>-</u>	<u>-</u>	<u>117,465</u>
Net change in fund balances	(356,009)	6,401	24,915	(324,693)
Fund balances - beginning	<u>3,525,468</u>	<u>132,502</u>	<u>111,309</u>	<u>3,769,279</u>
Fund balances - ending	<u>\$ 3,169,459</u>	<u>\$ 138,903</u>	<u>\$ 136,224</u>	<u>\$ 3,444,586</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF LAKELAND, TENNESSEE**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2011

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Amounts reported for governmental activities in the statement of net activities  
are different because:

Net change in fund balance - total governmental funds	\$ (324,693)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays and contributions in the current period.

	(1,766,092)
--	-------------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

	307,476
--	---------

The issuance of long-term debt (e.g. notes payable and capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debts consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs and similar items when first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt.

	<u>198,225</u>
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Change in net assets of governmental funds	<u><u>\$ (1,585,084)</u></u>
--	------------------------------

The accompanying notes are an integral part of the financial statements.



**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL – GENERAL FUND**

For the Year Ended June 30, 2011

	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
	Original and Final	Actual Amounts	
<b>REVENUES</b>			
Taxes			
Local sales tax	\$ 800,000	\$ 737,457	\$ (62,543)
Wholesale beer tax	140,000	137,356	(2,644)
Business tax	80,000	64,307	(15,693)
CATV franchise tax	115,000	106,978	(8,022)
Hotel/Motel tax	55,000	43,977	(11,023)
Total taxes	<u>1,190,000</u>	<u>1,090,075</u>	<u>(99,925)</u>
Licenses and permits			
Building permit fees	37,500	35,051	(2,449)
Inspection fees	5,000	7,000	2,000
Plat approval fees	5,000	6,350	1,350
Others	13,400	13,640	240
Total licenses and permits	<u>60,900</u>	<u>62,041</u>	<u>1,141</u>
Intergovernmental			
State of Tennessee shared taxes			
Sales tax	705,000	728,190	23,190
Beer tax	7,200	7,748	548
Income tax	110,000	91,244	(18,756)
Transportation tax	24,000	23,470	(530)
Receipts in lieu of tax - TVA	120,000	122,082	2,082
Total intergovernmental	<u>966,200</u>	<u>972,734</u>	<u>6,534</u>
Charges for services			
Recreation fees	54,500	55,298	798
Rental income	35,400	23,727	(11,673)
Payments in lieu of roads and parks	-	16,500	16,500
Total charges for services	<u>89,900</u>	<u>95,525</u>	<u>5,625</u>
State grants	<u>2,440,000</u>	<u>996,825</u>	<u>(1,443,175)</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)**

For the Year Ended June 30, 2011

	Budgeted Amounts <u>Original and Final</u>	Actual Amounts <u></u>	Variance with Final Budget - Positive (Negative) <u></u>
<b>REVENUES (continued)</b>			
Interest income	<u>50,500</u>	<u>42,246</u>	<u>(8,254)</u>
Other revenue	<u>27,000</u>	<u>73,408</u>	<u>46,408</u>
Total revenues	<u>4,824,500</u>	<u>3,332,854</u>	<u>(1,491,646)</u>
<b>EXPENDITURES</b>			
General government			
Personnel compensation	1,005,591	981,144	24,447
Fringe benefits	425,427	416,403	9,024
Office communication expense	12,000	13,553	(1,553)
Utility services	33,000	39,982	(6,982)
Professional services	156,947	155,439	1,508
Repair/travel/supplies	90,150	96,444	(6,294)
Insurance	53,200	51,111	2,089
Other services	<u>5,040</u>	<u>5,945</u>	<u>(905)</u>
Total general government	<u>1,781,355</u>	<u>1,760,021</u>	<u>21,334</u>
Capital projects	<u>4,185,000</u>	<u>1,519,911</u>	<u>2,665,089</u>
Public safety			
Other contracted services	3,400	654	2,746
Other professional services, electric, and miscellaneous	<u>3,000</u>	<u>3,304</u>	<u>(304)</u>
Total public safety	<u>6,400</u>	<u>3,958</u>	<u>2,442</u>
Parks and recreation			
Contracted services	20,000	5,885	14,115
Maintenance, utilities, and miscellaneous	<u>140,700</u>	<u>138,028</u>	<u>2,672</u>
Total parks and recreation	<u>160,700</u>	<u>143,913</u>	<u>16,787</u>
Natural resources			
Professional and contracted services	9,550	11,689	(2,139)
Other services	<u>3,400</u>	<u>2,998</u>	<u>402</u>
Total natural resources	<u>12,950</u>	<u>14,687</u>	<u>(1,737)</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)**

For the Year Ended June 30, 2011

	Budgeted Amounts <u>Original and Final</u>	Actual Amounts <u></u>	Variance with Final Budget - Positive (Negative) <u></u>
<b>EXPENDITURES (continued)</b>			
Debt service			
Principal	318,000	318,065	(65)
Interest and fiscal charges	41,000	45,773	(4,773)
Total debt service	<u>359,000</u>	<u>363,838</u>	<u>(4,838)</u>
 Total expenditures	 <u>6,505,405</u>	 <u>3,806,328</u>	 <u>2,699,077</u>
 Excess (deficiency) of revenues over (under) expenditures	 (1,680,905)	 (473,474)	 1,207,431
<b>OTHER FINANCING SOURCES (USES)</b>			
Issuance of debt	<u>1,700,000</u>	<u>117,465</u>	<u>(1,582,535)</u>
 Net change in fund balance	 <u>\$ 19,095</u>	 (356,009)	 <u>\$ (375,104)</u>
 Fund balance - beginning of year		 <u>3,525,468</u>	
 Fund balance - end of year		 <u>\$ 3,169,459</u>	

The accompanying notes are an integral part of the financial statements.

**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL – SOLID WASTE FUND**

For the Year Ended June 30, 2011

	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
	<u>Original and Final</u>	<u>Actual Amounts</u>	<u></u>
<b>REVENUES</b>			
Charges for services	\$ 1,018,500	\$ 1,042,195	\$ 23,695
<b>EXPENDITURES</b>			
Personnel compensation	34,029	41,799	(7,770)
Fringe benefits	13,734	13,310	424
MLGW collection fee	20,000	20,418	(418)
Other professional services	9,000	7,666	1,334
Contracted service	950,000	946,223	3,777
Litter control	10,000	6,378	3,622
Total expenditures	<u>1,036,763</u>	<u>1,035,794</u>	<u>969</u>
Net change in fund balance	<u>\$ (18,263)</u>	6,401	<u>\$ 24,664</u>
Fund balance - beginning of year		<u>132,502</u>	
Fund balance - end of year		<u>\$ 138,903</u>	

The accompanying notes are an integral part of the financial statements.

CITY OF LAKELAND, TENNESSEE

STATEMENT OF NET ASSETS  
PROPRIETARY FUND

June 30, 2011

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<b>ASSETS</b>	<u>Sewer Fund</u>
Current assets:	
Cash and cash equivalents	\$ 1,821,123
Receivables	
Customers	87,323
Interest	<u>9,395</u>
Total current assets	<u>1,917,841</u>
Capital assets:	
Capital assets, not being depreciated	75,360
Capital assets, being depreciated - net	<u>15,054,894</u>
Total capital assets	<u>15,130,254</u>
Total assets	<u>17,048,095</u>
 <b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued expenses	13,544
Current portion of notes payable	<u>413,000</u>
Total current liabilities	<u>426,544</u>
Noncurrent liabilities:	
Notes payable, net of current portion	<u>7,803,250</u>
Total liabilities	<u>8,229,794</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,856,254
Unrestricted	<u>1,962,047</u>
Total net assets	<u>\$ 8,818,301</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND**

For the Year Ended June 30, 2011

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	<u>Sewer Fund</u>
Operating revenues:	
Sewer service fee	\$ 865,539
Service connections fees	50,400
Other	<u>3,698</u>
Total operating revenues	<u>919,637</u>
 Operating expenses:	
Personnel expenses	230,895
General and administrative	332,620
Depreciation	<u>437,463</u>
Total operating expenses	<u>1,000,978</u>
 Operating income (loss)	(81,341)
 Nonoperating revenues (expenses):	
Loss in disposal of capital assets	(16,398)
Interest income	22,911
Interest and agent fee expense	<u>(84,047)</u>
Total non-operating revenues (expenses)	<u>(77,534)</u>
 Change in net assets	(158,875)
 Net assets - beginning	<u>8,977,176</u>
 Net assets - ending	<u><u>\$ 8,818,301</u></u>

The accompanying notes are an integral part of the financial statements.

**CITY OF LAKELAND, TENNESSEE**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND**

For the Year Ended June 30, 2011

	<u>Sewer Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 905,145
Payments to suppliers	(329,360)
Payments to employees	<u>(230,895)</u>
Net cash provided by (used for) operating activities	344,890
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Repayment of advance from other funds	(33,477)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal payments on capital debt	(397,000)
Acquisition and construction of capital assets	(135,550)
Interest paid on capital debt	(80,197)
Capital contributions from tap and development fees	<u>-</u>
Net cash provided by (used for) capital and related financing activities	(612,747)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income received	<u>29,023</u>
Net increase (decrease) in cash and cash equivalents	(272,311)
Cash and cash equivalents - beginning of the year	<u>2,093,434</u>
Cash and cash equivalents - end of the year	<u><u>\$ 1,821,123</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ (81,341)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	437,463
Change in assets and liabilities	
Receivables - customers	(14,492)
Accounts payable and accrued expenses	<u>3,260</u>
Net cash provided (used) by operating activities	<u><u>\$ 344,890</u></u>

The accompanying notes are an integral part of the financial statements.

**CITY OF LAKELAND, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Lakeland, Tennessee (the City) was incorporated in 1977 as a municipal corporation governed by an elected mayor and four-member board of commissioners.

As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. However, currently there are no component units.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statements of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Licenses and permits, fines and forfeitures, and miscellaneous revenues (except for investment earnings) are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the primary operating fund of the City and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Solid Waste Fund accounts for the receipts and expenditures related to sanitation services.

The City reports the following non-major governmental funds:

The State Street Aid Fund accounts for the receipts and expenditures of the City's share of the proceeds from the state gasoline tax.

The Storm Water Fund accounts for the receipts and expenditures related to storm water services.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the activities of the City's collection, transportation, treatment and disposition of wastewater.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government – wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund are charges to customers for sales and services. The sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the sewer fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amount are available, it is the policy of the City to generally consider restricted amounts to have been reduced first. When an expenditure is incurred for purposed for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the City that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. In both instances, when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

## **D - Assets, liabilities and fund equity**

### *1. Deposits and investments*

The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. All certificates of deposit are considered to be cash and cash equivalents.

### *2. Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade receivables are shown net of an allowance for uncollectibles. However, there is no allowance due to subsequent receipt.

### *3. Restricted assets*

Certain cash and cash equivalents of the City may be classified as restricted assets on the balance sheet because they are maintained in separate accounts and/or their use is limited by certain agreements and contracts with third parties. Restricted balances may include escrow for construction contractors established to fund retainages of outstanding construction projects.

#### 4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

Roads and bridges	30 years
Buildings and building improvements	15-40 years
Land improvements	20 years
Machinery, equipment and heavy vehicles	5 years
Automobiles	5 years

#### 5. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

#### 6. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Note issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize note issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance

costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### *7. Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### *8. Use of Estimates*

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### **NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

#### **A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including notes payable and capital leases, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

Notes payable	\$ 3,684,055
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(39,125)
Capital leases	<u>64,673</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>\$ 3,709,603</u></u>

#### **B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

The details of the difference are as follows:

Capital outlay	\$ 1,514,137
Depreciation expense	<u>(3,280,229)</u>
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (1,766,092)</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g. notes payable and capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debts consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs and similar items when first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Debt issued or incurred:	
Issuance of notes payable	\$ (117,465)
Amortization of issuance costs	(2,375)
Principal repayment on capital leases	22,065
Principal repayment on notes payable	<u>296,000</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 198,225</u>

### **NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

#### **A. Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The revenues and expenditures accounted for in all governmental fund types are controlled by a formal integrated budgetary accounting system. The mayor and board of commissioners approve annually the budgets for these funds. Budgetary control is maintained at the government-wide level by total expenditures and expenditures may not exceed funds budgeted, which constitute the legal spending limit. Management may not amend the budget without approval of the governing body.

#### **B. Excess of expenditures over appropriations**

For the year ended June 30, 2011, the State Street Aid Fund's expenditures exceeded appropriations by \$14,420.

### C. Deficit fund equity

As of June 30, 2011, no fund had a deficit fund equity.

## NOTE 4 - DETAILED NOTES ON ALL FUNDS

### A. Deposits and investments

At year end, the City's carrying amount of deposits was \$5,271,044 and the bank balance was \$5,286,634. Of the bank balance, \$500,000 was covered by the Federal Deposit Insurance Corporation with the remaining balance of \$4,786,634 being collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the City's name.

State statutes authorize the City to invest in bonds, notes or treasury bills of the United States of America or any of its agencies, certificates of deposit, repurchase agreements utilizing obligations of the United States of America or its agencies as the underlying securities, state pooled investment funds, money market mutual funds, and mortgage-backed securities. Statutes require that (1) deposits have securities as collateral whose market value is equal to 105 percent of the value of the deposits, less so much of such amount as is insured by federal deposit insurances and (2) securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase agreement. Tennessee Code Annotated Sections 9-4-105 and 9-4-404 state that collateralization coverage for cash deposits may be computed based on average daily balances of the preceding month. City deposit policies follow the State statutes.

### B. Receivables

Receivables as of year-end for the City's individual major funds, including the applicable allowances for the uncollectible accounts, are as follows:

	General Fund	Sewer Fund	Total
Receivables:			
Taxes	\$ 42,061	\$ -	\$ 42,061
Interest	25,026	9,395	34,421
Customers	-	87,323	87,323
Gross receivables	67,087	96,718	163,805
Less: allowance for doubtful accounts	-	-	-
Net total receivables	<u>\$ 67,087</u>	<u>\$ 96,718</u>	<u>\$ 163,805</u>

Amounts due from other governments represent the normal amounts due from state and county governments for shared revenues and tax allocations as well as federal grant receivables.

## C. Capital assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 7,140,990	\$ -	\$ -	\$ 7,140,990
Construction in progress	431,330	1,498,147	(88,616)	1,840,861
Total capital assets, not being depreciated	7,572,320	1,498,147	(88,616)	8,981,851
Capital assets, being depreciated:				
Buildings and improvements	2,668,199	-	-	2,668,199
Improvements other than buildings	4,280,648	-	74,518	4,355,166
Machinery and equipment	1,258,372	15,990	14,098	1,288,460
Infrastructure	61,012,146	-	-	61,012,146
Total capital assets, being depreciated	69,219,365	15,990	88,616	69,323,971
Less accumulated depreciation for:				
Buildings and improvements	(388,406)	(70,191)	-	(458,597)
Improvements other than buildings	(1,279,417)	(284,636)	-	(1,564,053)
Machinery and equipment	(949,308)	(105,309)	-	(1,054,617)
Infrastructure	(28,721,926)	(2,820,093)	-	(31,542,019)
Total accumulated depreciation	(31,339,057)	(3,280,229)	-	(34,619,286)
Total capital assets, being depreciated, net	37,880,308	(3,264,239)	88,616	34,704,685
Governmental activities capital assets, net	<u>\$ 45,452,628</u>	<u>\$ (1,766,092)</u>	<u>\$ -</u>	<u>\$ 43,686,536</u>
	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
<b>Business-type activity:</b>				
Capital assets, not being depreciated:				
Land	\$ 75,360	\$ -	\$ -	\$ 75,360
Total capital assets, not being depreciated	75,360	-	-	75,360
Capital assets, being depreciated:				
Sewer plant and improvements	17,828,248	129,420	(20,203)	17,937,465
Vehicles and equipment	182,729	6,130	-	188,859
Total capital assets, being depreciated	18,010,977	135,550	(20,203)	18,126,324
Less accumulated depreciation for:				
Sewer plant and improvements	(2,561,971)	(428,125)	3,805	(2,986,291)
Vehicles and equipment	(75,801)	(9,338)	-	(85,139)
Total accumulated depreciation	(2,637,772)	(437,463)	3,805	(3,071,430)
Total capital assets, being depreciated, net	15,373,205	(301,913)	(16,398)	15,054,894
Business-type activity capital assets, net	<u>\$ 15,448,565</u>	<u>\$ (301,913)</u>	<u>\$ (16,398)</u>	<u>\$ 15,130,254</u>

Depreciation expense was charged to function / programs of the primary government as follows:

Governmental Activities:	
General government	\$ 180,594
Public Works	3,003,710
Parks and recreation	95,925
Total depreciation expense - governmental activities	<u>\$ 3,280,229</u>
Business-Type Activity:	
Sewer	<u>\$ 437,463</u>

#### **D. Interfund receivables, payables, and transfers**

As of June 30, 2011, there are no interfund receivables or payables.

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations. However, there were no transfers during the year ended June 30, 2011.

#### **E. Leases**

##### **Operating Leases**

The City has entered into a lease agreement with Memphis Works Managerial Club for certain rights and use related to the I.H. Managerial Club Clubhouse through July 1, 2015. The minimum lease payments for years ending June 30 are as follows:

2012	\$ 20,000
2013	20,000
2014	20,000
2015	20,000
2016	7,500
	<u>\$ 87,500</u>

Rent expense was \$20,000 under this lease for the year ended June 30, 2011.

##### **Capital Leases**

The City has entered into a lease agreement as lessee for financing the acquisition of five vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases were purchased at a cost of \$120,788 with accumulated depreciation of \$65,505 for a net carrying value of \$55,283.



The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2012	\$ 29,590
2013	29,591
2014	13,829
Total minimum lease payments	73,010
Less: amount representing interest	(8,337)
Present value of minimum lease payments	<u>\$ 64,673</u>

## **F. Long-Term Debt**

### *General obligation loans payable*

On July 26, 2004, the City entered into a 20 year loan agreement with the Public Building Authority of the City of Clarksville, Tennessee ("Clarksville PBA") through the Tennessee Municipal League (the "League") for \$3,500,000. The principal on this loan is paid annually while the interest is paid monthly based on a variable interest rate determined monthly by the remarketing agent. At June 30, 2011, the balance outstanding was \$2,280,095 and the interest rate on this loan was .27%.

On June 30, 2006, the City entered into a 20 year loan agreement for the City's sewer fund to borrow \$11,000,000 from the Clarksville PBA through the League. The principal on this loan is paid annually while the interest is paid monthly based on a variable interest rate determined monthly by the remarketing agent. At June 30, 2011, the balance outstanding was \$8,274,000 and the interest rate on this loan was .27 %.

On December 22, 2008, the City entered into a 21 year loan agreement with the Clarksville PBA through the Tennessee Municipal League (the "League") for up to \$4,500,000. Money is drawn as needed for various on-going City construction projects. The principal on this loan is paid annually while the interest is paid monthly based on a variable interest rate determined monthly by the remarketing agent. At June 30, 2011, the balance outstanding was \$1,403,960 and the interest rate on this loan was .27%.

### Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Notes payable	\$ 3,862,590	\$ 117,465	\$ (296,000)	\$ 3,684,055	\$ 308,000
Less deferred amounts:					
For issuance costs	(41,500)	-	2,375	(39,125)	-
Total notes payable	3,821,090	117,465	(293,625)	3,644,930	308,000
Capital leases	86,738	-	(22,065)	64,673	24,331
Governmental-type activity long-term liabilities	<u>\$ 3,907,828</u>	<u>\$ 117,465</u>	<u>\$ (315,690)</u>	<u>\$ 3,709,603</u>	<u>\$ 332,331</u>
<b>Business-type activities:</b>					
Notes payable	\$ 8,671,000	\$ -	\$ (397,000)	\$ 8,274,000	\$ 413,000
Less deferred amounts:					
For issuance costs	(61,600)	-	3,850	(57,750)	-
Business-type activity long-term liabilities	<u>\$ 8,609,400</u>	<u>\$ -</u>	<u>\$ (393,150)</u>	<u>\$ 8,216,250</u>	<u>\$ 413,000</u>

Annual debt service requirements to maturity based on current interest rates for notes payable are as follows:

Years Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 308,000	\$ 9,947	\$ 413,000	\$ 22,340
2013	319,000	9,116	430,000	21,225
2014	333,000	8,254	447,000	20,064
2015	346,000	7,355	465,000	18,857
2016	360,000	6,421	483,000	17,601
2017-2021	1,588,960	17,316	2,723,000	67,354
2022-2026	429,095	1,715	3,313,000	27,538
	<u>\$ 3,684,055</u>	<u>\$ 60,124</u>	<u>\$ 8,274,000</u>	<u>\$ 194,979</u>

The City is not subject to any state or other law that limits the amount of net bonded debt a City may have outstanding, therefore, there is no legal debt margin or computation thereof. The City's full faith, credit, and unlimited taxing authority are pledged to the repayment of all general obligation note principal and interest.

## NOTE 5 - EMPLOYEE RETIREMENT SYSTEM

### A. Plan Description

Employees of Lakeland are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated

Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in the state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Lakeland participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at [www.tn.gov/treasury/tcrs/PS](http://www.tn.gov/treasury/tcrs/PS).

## **B. Funding Policy**

Lakeland requires employees to contribute 5.0% of earnable compensation.

Lakeland is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 8.50% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Lakeland is established and may be amended by the TCRS Board of Trustees.

## **C. Annual Pension Cost**

For the year ending June 30, 2011, Lakeland's annual pension cost of \$91,065 to TCRS was equal to Lakeland's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected 3.0% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten year period. Lakeland's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 15 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

## D. Trend Information

Trend Information			
Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 91,065	100%	\$ -
June 30, 2010	\$ 85,591	100%	\$ -
June 30, 2009	\$ 85,884	100%	\$ -

## E. Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 61.38% funded. The actuarial accrued liability for benefits was \$0.8 million, and the actuarial value of assets was \$0.5 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.3 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.1 million, and the ratio of the UAAL to the covered payroll was 28.75%.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for the purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

### Required Supplementary Information Schedule of Funding Progress for Lakeland

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
July 1, 2009	\$ 507,000	\$ 826,000	\$ 319,000	61.38%	\$ 1,109,000	28.75%
July 1, 2007	\$ 253,000	\$ 312,000	\$ 59,000	81.09%	\$ 729,000	8.09%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into effect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

## **NOTE 6 - COMMITMENTS AND CONTINGENCIES**

The City has entered into lease agreements with various governmental units and organizations. The terms of these leases vary and require only nominal token payments, if any. Annual lease payments are not material.

Several lawsuits against the City are ongoing. The ultimate outcome of the actions is not determinable; however, City officials believe that the outcome of these proceedings, either singularly or in the aggregate, will not have a materially adverse effect on the accompanying general purpose financial statements.

## **NOTE 7 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability, auto liability, errors and omissions, and auto physical damage coverage. The City joined the Tennessee Municipal League Risk Pool (the Pool), which is a public entity risk pool established in 1979 by the Tennessee Municipal League. The City pays annual premiums to the Pool and its general liability, auto liability, real and personal property damage, workmen's compensation, and errors and omissions policies. The Pool provides the specified coverage and pays all claims from its member premiums charged or through reinsurance policies. The City's premiums are calculated based on its prior claims history. It is the policy of the City to purchase commercial insurance for the risks of employee dishonesty. The City has not incurred any losses in excess of commercial insurance coverage for the past three fiscal years.

**CITY OF LAKELAND, TENNESSEE**

**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2011

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>State Street Aid</u>	<u>Storm Water</u>	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 23,128	\$ 43,986	\$ 67,114
Due from other governments	<u>54,591</u>	<u>14,519</u>	<u>69,110</u>
 Total assets	 <u><u>\$ 77,719</u></u>	 <u><u>\$ 58,505</u></u>	 <u><u>\$ 136,224</u></u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Fund balances:			
Restricted	\$ 77,719	\$ -	\$ 77,719
Committed	<u>-</u>	<u>58,505</u>	<u>58,505</u>
	<u><u>\$ 77,719</u></u>	<u><u>\$ 58,505</u></u>	<u><u>\$ 136,224</u></u>

**CITY OF LAKELAND, TENNESSEE**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES – NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2011

---

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>State Street Aid</u>	<u>Storm Water</u>	
<b>REVENUES</b>			
Intergovernmental	\$ 298,186	\$ -	\$ 298,186
Charges for services	-	173,779	173,779
Total revenues	<u>298,186</u>	<u>173,779</u>	<u>471,965</u>
<b>EXPENDITURES</b>			
Current			
Public works	<u>315,252</u>	<u>131,798</u>	<u>447,050</u>
Net change in fund balances	(17,066)	41,981	24,915
Fund balances - beginning	<u>94,785</u>	<u>16,524</u>	<u>111,309</u>
Fund balances - ending	<u><u>\$ 77,719</u></u>	<u><u>\$ 58,505</u></u>	<u><u>\$ 136,224</u></u>

**CITY OF LAKELAND, TENNESSEE**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL – NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2011

	State Street Aid		
	Budgeted Amounts		Variance with Final Budget -
	Original and Final	Actual Amounts	Positive (Negative)
<b>REVENUES</b>			
Intergovernmental - gasoline and motor fuel tax	\$ 300,000	\$ 298,186	\$ (1,814)
<b>EXPENDITURES</b>			
Personnel compensation	146,856	146,856	-
Fringe benefits	31,776	31,775	1
Repairs and maintenance	75,300	82,601	(7,301)
Grass mowing	25,000	30,268	(5,268)
Street lighting	12,000	13,806	(1,806)
Other services, machinery, and equipment	9,900	9,946	(46)
Capital expenditures	-	-	-
Total expenditures	<u>300,832</u>	<u>315,252</u>	<u>(14,420)</u>
Excess (deficiency) of revenues over (under) expenditures	(832)	(17,066)	(16,234)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u><u>\$ (832)</u></u>	(17,066)	<u><u>\$ (16,234)</u></u>
Fund balance - beginning of year		<u>94,785</u>	
Fund balance - end of year		<u><u>\$ 77,719</u></u>	



**CITY OF LAKELAND, TENNESSEE**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET AND ACTUAL – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)**

For the Year Ended June 30, 2011

	Storm Water		
	Budgeted Amounts		Variance with Final Budget -
	Original and Final	Actual Amounts	Positive (Negative)
<b>REVENUES</b>			
Charges for services - storm water	\$ 171,684	\$ 173,779	\$ 2,095
<b>EXPENDITURES</b>			
Personnel compensation	82,810	83,543	(733)
Fringe benefits	35,077	33,159	1,918
Contracted services	22,664	1,070	21,594
Other fees, supplies, and miscellaneous	31,133	14,026	17,107
Capital expenditures	-	-	-
Total expenditures	<u>171,684</u>	<u>131,798</u>	<u>39,886</u>
Net change in fund balance	<u>\$ -</u>	41,981	<u>\$ 41,981</u>
Fund balance - beginning of year		<u>16,524</u>	
Fund balance - end of year		<u>\$ 58,505</u>	

**CITY OF LAKELAND, TENNESSEE**  
**SCHEDULE OF NOTES PAYABLE**  
**FUTURE MATURITIES (INCLUDING INTEREST)**

June 30, 2011

Fiscal Year	Governmental Activities						Business-type Activities	
	2004 Note Payable - Public Building Authority - Clarksville		2008 Note Payable - Public Building Authority - Clarksville		Total		2006 Note Payable - Public Building Authority - Clarksville	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 158,000	\$ 6,156	\$ 150,000	\$ 3,791	\$ 308,000	\$ 9,947	\$ 413,000	\$ 22,340
2013	163,000	5,730	156,000	3,386	319,000	9,116	430,000	21,225
2014	169,000	5,290	164,000	2,964	333,000	8,254	447,000	20,064
2015	175,000	4,833	171,000	2,522	346,000	7,355	465,000	18,857
2016	181,000	4,361	179,000	2,060	360,000	6,421	483,000	17,601
2017	187,000	3,872	187,000	1,577	374,000	5,449	503,000	16,297
2018	194,000	3,367	195,000	1,072	389,000	4,439	523,000	14,939
2019	201,000	2,843	201,960	545	402,960	3,388	544,000	13,527
2020	208,000	2,301	-	-	208,000	2,301	565,000	12,058
2021	215,000	1,739	-	-	215,000	1,739	588,000	10,533
2022	223,000	1,159	-	-	223,000	1,159	612,000	8,945
2023	206,095	556	-	-	206,095	556	636,000	7,293
2024	-	-	-	-	-	-	661,000	5,576
2025	-	-	-	-	-	-	688,000	3,791
2026	-	-	-	-	-	-	716,000	1,933
	<u>\$ 2,280,095</u>	<u>\$ 42,207</u>	<u>\$ 1,403,960</u>	<u>\$ 17,917</u>	<u>\$ 3,684,055</u>	<u>\$ 60,124</u>	<u>\$ 8,274,000</u>	<u>\$ 194,979</u>

**CITY OF LAKELAND, TENNESSEE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**

For the Year Ended June 30, 2011

<u>Federal Grantor/ Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning Accrued (Deferred)</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Accrued (Deferred)</u>
<u>Federal Awards</u>						
U.S. Dept. of Transportation/TN Dept of Transportation (ARRA)						
Highway Planning and Construction	20.205	90122	\$ 15,033	\$ 874,239	\$ 1,170,648	\$ 311,442
Highway Planning and Construction	20.205	70193	4,886	51,954	47,068	-
Total Program 20.205			<u>19,919</u>	<u>926,193</u>	<u>1,217,716</u>	<u>311,442</u>
U.S. Dept. of Housing and Urban Development						
CDBG - Entitlement Grants	14.218	CA108389	-	34,785	50,738	15,953
TOTAL FEDERAL AWARDS			<u>19,919</u>	<u>960,978</u>	<u>1,268,454</u>	<u>327,395</u>
<u>State Financial Assistance</u>						
TN Emergency Management Agency	N/A	Z08212834	-	7,047	7,047	-
TOTAL STATE AWARDS			<u>-</u>	<u>7,047</u>	<u>7,047</u>	<u>-</u>
TOTAL FEDERAL & STATE AWARDS			<u>\$ 19,919</u>	<u>\$ 968,025</u>	<u>1,275,501</u>	<u>\$ 327,395</u>
Add: Local grants for the current year					28,800	
Add: Beginning accrued receivable shown as deferred revenue in prior year					19,919	
Less: Ending accrued receivable shown as deferred revenue in the current year					(327,395)	
Federal, state, and local grant revenue per Statement of Revenues, Expenditures, and Changes in Fund Balances					<u>\$ 996,825</u>	

**Basis of Presentation:**

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of the City of Lakeland, Tennessee under programs of the federal and state government for the year ended June 30, 2011. The schedule is presented using the modified accrual basis of accounting.

# CITY OF LAKELAND, TENNESSEE

## SCHEDULE OF INSURANCE

June 30, 2011

Insurance Company	Type of Coverage	Description
TML Risk Management - TMP-3192-09	Property Insurance	Maximum amount covered per occurrence - \$1,500,000 buildings, \$50,000 personal property, \$500,000 equipment, \$500,000 property in the course of construction, \$1,000,000 flood damage, \$500,000 earthquake damage, \$250,000 loss of revenue and other various coverages ranging from \$50,000 to \$500,000 per occurrence. \$1,000 deductible for all coverages.
	Crime Coverages	\$150,000 employee dishonesty, \$150,000 forgery or alteration, \$100,000 theft disappearance or destruction, \$100,000 computer fraud. \$500 deductible employee dishonesty, \$1,000 deductible forgery or alteration.
TML Risk Management - TMP-067-09	General Liability and Personal Injury	\$300,000/\$700,000 bodily injury tort liability, \$100,000 property damage tort liability, \$100,000 fire damage, \$100,000 each, impounded property, \$1,000 per person, \$10,000 per accident medical payment, \$1,000,000 each, other loss \$50,000 non-monetary defense loss.
	Automobile Liability	\$300,000/\$700,000 bodily injury, \$100,000 property damage, \$1,000,000 per occurrence, \$1,000 per person, \$10,000 per accident medical payments
	Uninsured Motorist	\$60,000 per occurrence bodily injury, \$100,000 property damage
	Comprehensive	\$500 deductible per occurrence
	Collision	\$500 deductible per occurrence
	Errors or Omissions	\$1,000,000 per occurrence, \$50,000 non-monetary defense loss, \$1,000 deductible
TML Risk Management - TWC-0394-02	Workman's Compensation	\$300,000 bodily injury each accident, \$700,000 bodily injury by policy limit, \$300,000 each employee by disease.
RLI Insurance Company - LSM0043673	Office Coordinator and Notary Bond	\$10,000
RLI Insurance Company - 1517440N00	Notary Public - Bond	\$10,000
Western Surety Company - 53936821	City Manager - Bond	\$20,000
Western Surety Company - 53936822	Mayor - Bond	\$10,000
Western Surety Company - 15286503N000	Notary Bond	\$10,000
RLI Surety Division DRS1038102	City Recorder	\$10,000

**CITY OF LAKELAND, TENNESSEE**

**SCHEDULE OF SEWER, SANITATION, AND STORM WATER RATES**

June 30, 2011

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**Sewer Rates:**

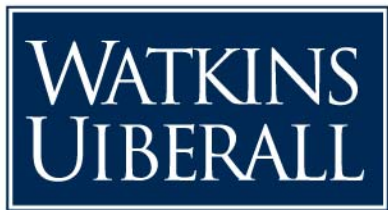
<u>Type</u>	<u>Rate - Based on Gallons of Water Used</u>
Residential	\$27.20 minimum for the first 8.01 ccf, thereafter \$0.90 per ccf with a \$40.00 maximum per month \$11.50 per month for users of the City of Memphis sewer system
Commercial	\$55.00 minimum for the first 40.91 ccf, thereafter \$1.10 per ccf

**Sanitation Rates:**

<u>Type</u>	<u>Monthly Charge</u>
Residential	\$22.39

**Storm Water Rates:**

<u>Type</u>	<u>Monthly Charge</u>
Residential	\$3.20



Watkins Uiberall, PLLC  
Certified Public Accountants & Financial Advisors  
Independent Member of BKR International

1661 Aaron Brenner Drive • Suite 300  
Memphis, Tennessee 38120  
901.761.2720 • Fax: 901.683.1120

210 East Main Street • Suite 2C  
Tupelo, Mississippi 38804  
662.269.4014 • Fax: 662.269.4016

[www.wucpas.com](http://www.wucpas.com)

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Mayor and Board of Commissioners of the  
City of Lakeland, Tennessee:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the statements of budgetary comparison for the general fund and solid waste fund, and the aggregate remaining fund information of the City of Lakeland, Tennessee (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a

timely basis. We consider the deficiency described in the accompanying schedule of findings and responses shown as item 2011-1 to be a material weakness.

#### Compliance and Other Matters

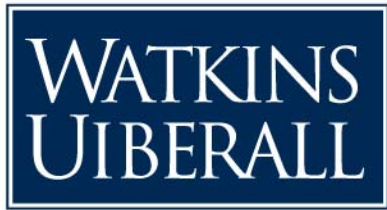
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, Board of Commissioners, management, the State of Tennessee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Watkins Wilmall, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee  
January 24, 2012



Watkins Uiberall, PLLC  
Certified Public Accountants & Financial Advisors  
Independent Member of BKR International

1661 Aaron Brenner Drive • Suite 300  
Memphis, Tennessee 38120  
901.761.2720 • Fax: 901.683.1120

210 East Main Street • Suite 2C  
Tupelo, Mississippi 38804  
662.269.4014 • Fax: 662.269.4016

[www.wucpas.com](http://www.wucpas.com)

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

To the Mayor and Board of Commissioners of the  
City of Lakeland, Tennessee:

Compliance

We have audited the City of Lakeland, Tennessee's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2011. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.



## Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor, Board of Commissioners, management, the State of Tennessee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Watkins Wilmall, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee  
January 24, 2012

## CITY OF LAKELAND, TENNESSEE

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2011

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#### A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Lakeland, Tennessee (the "City").
2. One significant deficiency disclosed during the audit of the financial statements is reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. This deficiency is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs are reported.
5. The auditor's report on compliance for the major federal award program for the City expresses an unqualified opinion on the major program.
6. There were no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program included:

20.205 – Highway Planning and Construction
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. The City was not determined to be a low risk auditee.

#### B. FINDINGS – FINANCIAL STATEMENTS AUDIT

##### MATERIAL WEAKNESS

2011-1: *Condition:* The City has a lack of segregation of duties in the cash receipts process.

*Criteria:* Duties should be segregated within the finance department in a manner that would prevent fraud.

*Cause:* There is a small office environment in the finance department and duties are not properly segregated.

*Effect:* The employee having access to the cash receipts and the ability to record entries has the opportunity to perpetrate and conceal fraud.

*Recommendation:* We recommend segregating these duties and the employee in charge of making journal entries should not have access to cash or checks.

*Management's Response:* The City will evaluate the current procedures and available staff and make the changes necessary to separate these duties.

#### **C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT**

NONE